

INTRODUCTION

As Nebraska enters a new millennium, it is a good time to assess our strengths, re-examine values, and determine how we want to move forward to effectively ensure the quality of life we all want in our great state. Through the experience of visiting with many Nebraskans over the last three years, Governor Johanns sees four objectives which will strengthen the state, and he has made them the objectives for his new administration. They include: **smaller government, lower taxes, safe communities, and a growing economy**. His budget embodies these goals and will help to ensure that necessary services are provided, while the rights of taxpayers are not overlooked.

Smaller government is not a choice; it is a necessity. To ensure that fact, many inflationary increases will have to be absorbed by agencies within existing or lowered levels of funding. While essential services are ensured, new programs and requested increases, although often worthy, were not funded or were tightly constrained. Through holding the line on state agency budgets, the Governor is able to offer a plan which provides **direct relief to Nebraska's property taxpayers**.

Public safety is an area where government must fulfill its responsibility. We must ensure that our law enforcement agencies are adequately funded, staffed, and able to carry out the duties of protecting our communities from crime. The Governor's budget includes funding which will ensure our ability to recruit and retain the law enforcement and corrections professionals needed throughout the state.

By controlling the growth of government, cutting taxes, and maintaining safe communities, the state is positioned to **grow economically** by making appropriate investments in education, accessible and affordable health care, and the infrastructure needs of our state. The FY 1999-2001 biennium budget includes such measured investments.

TAX CUTS AND ECONOMIC DEVELOPMENT

The Governor's budget includes funding to provide a **property tax relief package** which will feature direct payments to property tax payers. Previous initiatives have attempted to provide relief indirectly, with varying degrees of success. The Johanns plan will ensure that property tax relief intended for taxpayers goes directly to Nebraska citizens paying those taxes.

To keep property taxes from being an onerous burden on persons with fixed incomes or limited means, the **homestead exemption** is being expanded in the Governor's budget. General Funds in the amount of \$15.5 million are included to increase the limitations on the value of the homestead, the income limitations of eligible taxpayers, and the amount of the exemption from property taxation.

Consistent with the Governor's strong belief that children should have stable and loving families, his budget recommendation includes a **\$1,000 per year refundable tax credit for families who adopt a child**. The credit may be claimed each year of the child's life up through the year the child turns six years of age, making the maximum credit from the year of adoption through the last eligible year \$7,000 for each adopted child. The adoption tax credit is available to

families regardless of income level or filing status. The circumstances surrounding adoption have not been limited, and may include adoptions of unrelated children, adoptions by family members, and adoptions of the children of a spouse.

Tourism is increasing the part it plays in the state's economy, now ranked as the third largest industry in the state. State law provides for an additional sales tax of 1% on the total charges for occupancy at hotels in the state. Proceeds are paid to the Visitors Promotion Cash Fund, to fund tourism marketing and promotion activities administered by the Department of Economic Development. The Governor's budget includes an additional \$370,000 in FY 1999-00 and \$506,000 in FY 2000-01 to increase promotion of tourism in Nebraska.

According to existing state law, a documentary stamp tax is assessed to home sellers in the state. Due to a growing economy, home sales in Nebraska are on the rise, increasing the fiscal capacity of the **Affordable Housing Trust Fund** and the **Homeless Shelter Assistance Trust Fund**. The increase in Affordable Housing revenue will allow eligible recipients to acquire, rehabilitate, and construct affordable housing and increase the supply of quality housing for low- and moderate-income Nebraskans. The program was created to address a shortage of affordable housing which could impact the State's competitiveness in attracting new and expanding businesses and opportunities for economic growth. Funds available to the Homeless Shelter Assistance program will provide additional funding for grants and technical assistance for emergency shelters and other organizations with the aim of bringing the homeless to self sufficiency.

In the related areas of commerce, tourism development and promotion of safe day-to-day travel, the Governor is proposing an aggressive, yet critical **state highway and interstate construction program** of \$280 million in FY 1999-00 and \$294 million in FY 2000-01 while maintaining the average annual motor fuel tax at the current 23.9 cents per gallon.

EDUCATION

K-12 Education

Determining the proper level of state funding for the **Tax Equity and Educational Opportunities Support Act (TEEOSA)**, Nebraska's K-12 school finance law, has been a high priority for Governor Johanns during consideration of his budget recommendations for the FY 1999-2001 biennium. Recently enacted revisions to the TEEOSA distribution formula, an increase of over \$140 million of additional state aid in state fiscal year 1998-99, and new questions regarding the amount of state funding needed to replace property tax revenues lost as a result of the levy limits placed on schools have served to make the issue of school finance even more delicate.

A great deal of discussion has taken place since December 1, 1998 when the Nebraska Department of Education certified an amount for TEEOSA state aid that was \$22 million less than the estimated funding level provided by the Legislative Fiscal Analyst for the 1999-2000 school year. There are several reasons that may be given for the reduction. However, the primary reason is that actual school spending in 1996-97 and 1997-98, the first two years during which schools were under tighter budget limitations, grew more slowly than the rate of growth prescribed by law to be used in the aid formula.

During the recalculation of aid as required by state law, the lower growth in actual spending caused by the budget growth limitations revealed that the aid formula overstated school needs in the original certification of aid for the 1998-99 school year by more than \$22 million. Current state law requires that the Department of Education make adjustments for prior year corrections in the amount of aid certified for the ensuing school year. Consequently, state aid certified for the 1999-2000 school year included a correction of about \$22 million. In prior years, the statewide correction would not have resulted in a reduction in the total amount certified for state aid. However, a recently enacted provision of law created a floor of \$1.00 for the Local Effort Rate, the balancing factor used in the formula for distribution of aid. The significant difference in the growth of actual spending and the rate of growth in the formula drove the Local Effort Rate below the \$1.00 floor, resulting in the \$22 million reduction in the amount of aid certified for the 1999-2000 school year.

The Governor's recommendation takes into account the many statutory provisions enacted by the Legislature noted above. The recommendation also reflects a desire by the Governor to establish a set of reasonable assumptions for determining the aggregate needs and resources of Nebraska's school districts, so as to generate a figure which represents the appropriate level of state General Fund appropriations. The Governor's budget provides \$567.1 million General Funds in FY 1999-00 and \$584.5 million General Funds in FY 2000-01 for State Aid to Schools pursuant to the Tax Equity and Educational Opportunities Support Act. The amount recommended for FY 1999-00 provides a level of General Funds equal to the amount of aid certified by the Department of Education for the 1999-2000 school year.

These recommendations recognize that the state has a commitment to provide sufficient funding for the needs of school districts in Nebraska. Nonetheless, it has become increasingly clear that the proper level of state funding is very much in question and must be considered in context with the total needs of the state. Governor Johanns does not believe that these recommendations complete his involvement this session with regard to state funding for K-12 Education. The Governor is prepared to cooperate with the Legislature to make changes to the current methods of calculating and distributing State Aid to Schools that promote fairness and enhance predictability of funding for both schools and the state.

Continuing in the FY 1999-2001 biennium and pursuant to Section 79-1145, increases in state appropriations for aid to schools for **special education** are limited to no more than 3% per year. The Governor's recommendation for special education maintains this growth rate and provides increases of \$3.9 million General Funds in FY 1999-00 and another \$3.9 million General Funds in FY 2000-01 to reimburse schools for special education expenses.

School Retirement System Funding

The Governor's budget recommends elimination of a 0.7% contribution to the School Retirement System, which has been paid in since 1984, a time when neither the schools nor the retirement system members could agree to completely finance an increase in benefits. Funding for the School Retirement System contains both a service annuity, funded entirely by the state, and a formula annuity, funded by retirement fund members, school districts (employers), and the state. The amount in question is the state contribution to the formula annuity. Based on a formula in law, a member contributes 7.25% of pay, the employing school district contributes 7.33%, and the state contributes 0.7%. At the current time, the School Retirement System has a surplus of assets over liabilities of over \$696 million. The Governor is proposing legislation which would eliminate the 0.7% contribution, reducing the amount of excess assets by \$54.9 million, still leaving nearly \$650 million more than necessary to fund current obligations.

Higher Education

The Governor's recommendation includes continuation base budget funding for **the University of Nebraska and the State Colleges**, and a total of \$42.7 million additional new State General Fund dollars have been added for the coming biennium. Included are increases in such items as salaries, health insurance, operations and maintenance, and depreciation assessment.

The emphasis is on increasing the efficiency of delivering services in postsecondary education, along with increasing its quality within a continuing reasonable level of funding. Many times the assumption is that increasing dollars to education will improve the quality of outcomes. This is often not the case. The emphasis needs to be on strengthening management of resources and encouraging efficiency and quality without the need to increase unnecessarily the burden on taxpayers.

LB 269, passed two years ago, includes a reduction in levy limitations for Community Colleges in FY 2000-01 from the current seven cents to six cents per \$100 of valuation. The Governor's recommendation provides \$6.7 million in FY 2000-01 to replace property tax revenue lost from the limitation reduction.

The Governor's recommendation also includes increased funding for **student financial aid** in the programs administrated by the Coordinating Commission for Postsecondary Education. The increase is intended to maintain the current number of scholarships.

The Governor's recommendation provides additional funding in excess of \$400,000 for the coming biennium for additional staffing resources to aid in **digitization and computing** at the Nebraska Educational Telecommunications Commission.

Cultural Preservation Endowment

The Governor's budget includes increased funding of \$1.1 million Cash Funds for each of the next two fiscal years for grants from the **Cultural Preservation Endowment**, the newly created trust fund intended to provide stable, long-term support for the arts and humanities in Nebraska. The funding reflects increased authority for matching grants administered by the Nebraska Arts Council and Nebraska Humanities Council. The additional authority will increase the ability of the Nebraska Arts and Humanities Councils to promote the creation of local endowments and will foster a greater appreciation for the arts and humanities among the state's citizens.

AGRICULTURE, ENVIRONMENT AND NATURAL RESOURCES

The Governor's FY 1999-01 biennial recommendation for the Department of Water Resources includes nearly \$8.5 million General funds to **continue Platte River water rights litigation** with the State of Wyoming and to **prepare for a suit filed by the State of Kansas** concerning the use of the Republican River.

Water rights mapping is currently performed by hand within the department. The Governor proposes to replace this slow, tedious, labor-intensive process with a **computerized GIS-based mapping system**. Computerized mapping will aid in the efficient administration of irrigation water rights as well as assist in the litigation efforts with the states of Wyoming and Kansas.

The Governor's budget includes increased funding for the Nebraska Environmental Trust Fund of approximately \$3.7 million for each of the next two fiscal years. This brings total funding for the program to \$14.2 million per year and reflects increased authority for grants administered by the Game and Parks Commission to private and governmental agencies, individuals, and non-profit and for-profit organizations. Grants are given for projects designed to conserve, enhance, and restore the natural physical, and biological environment across the state. The additional monies will come from lottery proceeds beginning July 1, 2000.

PUBLIC SAFETY

The Governor placed a priority on resolving a two-year labor contract impasse with the State Troopers which had resulted in no pay increases and created severe recruitment, retention, and morale problems within the State Patrol. Governor Johanns has settled this dispute for the 1997-99 biennium and established a new contract for 1999-01. This settlement and the new wage contract are estimated to cost \$13.2 million. Additional General Fund costs are \$2.7 million for FY 1998-99, \$2.1 million for FY 1999-00, and \$2.8 million for FY 2000-01. These amounts are included in the Governor's recommendation.

The Governor's budget includes General Funds of \$781,800 in FY 1999-00 and \$1.9 million in FY 2000-01 for initial staffing and operating costs at the new prison facility at Tecumseh. Funding for the incarceration work camp is included in the amount of \$500,000 in FY 1999-00 and \$3.9 million in FY 2000-01.

The Governor has included \$12.6 million additional General Funds in the biennial budget to reimburse counties for the costs incurred for incarcerating prisoners. This is the result of a delayed effective date for this new program adopted by the 1998 Legislature.

HEALTH AND HUMAN SERVICES

Funding has been included where necessary to safeguard the health and safety of Nebraska's citizens. General Funds of \$185,000 in FY 1999-00 and \$234,000 in FY 2000-01 are added to Health and Human Services - Regulation and Licensure to help manage **safe water and groundwater protection federal requirements**.

Additional **child support collection efforts** in Douglas County have been funded. Reflecting the impact of the strong economy and Nebraska's welfare reform efforts, the number of families requiring public assistance has been declining. The Governor's budget reduces \$750,000 in 1999-00 and nearly \$1 million in FY 2000-01 from the appropriation level for the Aid to Families with Dependent Children program. Funding is included to cover the costs of increased utilization of child care services for low-income working families.

The federal financial participation rate for the state's **Medicaid program** is calculated annually based on the relationship between each state's per capita personal income and that of the nation as a whole for the three most recent years. In recognition of Nebraska's positive economic status, the federal match rate was reduced for the coming year. General Funds of \$9.4 million are included for the biennium to offset that federal reduction. Additional General Funds of \$34.3 million are included for the biennium to cover added utilization and medical inflation in the Medicaid and Medicaid Long-term Care programs.

General Funds of \$200,000 each year of the biennium have been added for **community-based services for juveniles**. These services will provide attention closer to home, so that families and communities are actively involved in the rehabilitation of youthful offenders. The additional services will give further assurance of public safety and will help alleviate pressure at the youth centers at Kearney and Geneva, allowing longer-term treatment for more serious offenders.

Funding has been included to address increasing costs for **medical services and supplies** at the state's 24-hour care facilities. Funds for increasing utility rates and maintenance costs are also included.

Over \$17 million of General Funds have been added over the biennium to address **child welfare services** which are required to assist families in crisis and children who are the victims of family disintegration. General Funds are provided for **general education costs of state wards**, growing out of an interpretation of existing statutes by the courts. The Governor supports legislation which would clarify the state's responsibility for the education costs in question.

The Governor's budget added over \$9.6 million in General Funds to offset a spend down of federal funding which became necessary to ensure that **mental health services continued without reduction at the Regional Centers** while community-based services were being developed. That base of funding is continued for mental health services. It is the Governor's intent that the movement toward community-based services shall be continued where appropriate. To encourage that approach, \$536,000 of the additional General Funds are redirected from the Regional Center budget into **community-based aid** in the first year of the biennium, and \$1.9 million are redirected in the second year. Regional Center care will still be provided for those who require hospitalization; but increasingly, outpatient care will be available to facilitate a more normal lifestyle for persons with mental illness.

General and federal funds have been added for **support services for persons graduating from special education**. In addition, funds are included to increase **rates for private providers of services for the developmentally disabled**. The adjusted rates will allow service providers to raise salaries for their employees and increase rates to 92.5% and 95% of the established reimbursement methodology over the biennium.

General funds of \$350,000 each year are added to provide additional **service coordination for elderly persons** facing long-term care decisions. Information and assessment will be provided to enable the frail elderly to find care services that will preserve their independence as long as possible. Funds have also been added to provide additional **in-home and community-based services for the elderly**.

The Governor's budget includes funding for increased **data processing costs** at Health and Human Services - Finance and Support to implement an efficient service delivery system. General and Federal funds are included to **upgrade the Medicaid Management Information System**, consistent with federally mandated changes.

CAPITAL CONSTRUCTION

The Governor's recommendation provides over \$950,000 General Funds in the coming biennium to address **fire and life safety problems** in a number of agencies. Funding is provided for the construction of the Hazardous Materials Center at the University of Nebraska -

Lincoln (UNL), to begin planning to correct electrical and air handling problems at the Nebraska Educational Telecommunication (NETC) Center, to continue planning to correct the electrical and air handling problems at the Headquarters Building for the Historical Society, and to repair or replace the water system at Peru State College.

In the area of **technology infrastructure**, the Governor's recommendation provides preliminary continuation funding of \$1.2 million of General Funds per year to provide **lease purchase replacement of the satellite/transponder** utilized by the Nebraska Educational Telecommunication Commission. The General Funds are to be matched by federal, private, or other fund sources. In addition, the Governor's recommendation provides preliminary funding for **digitization of the NETC telecommunications signal**. General Funds of \$1.6 million per year are provided for the lease purchase of necessary equipment. The General Funds are to be matched by federal, private, and other fund sources.

The Governor's recommendation also provides for the **Technology-Enhanced Learner-Centered Education Delivery System (TELCEDS)** which will connect the University of Nebraska - Omaha (UNO), the Metropolitan Community College Area, and a number of Educational Service Units in the Omaha area. This telecommunications linkage should create both efficiencies and opportunities for collaboration, which in turn should improve the quality of instruction, increase access to instructional programs, and enhance the transferability of courses and credits among the various sectors of education in the Omaha area. In addition, the Governor's recommendation provides funding for a **DS3 link** for the Southeast Community College Area to cooperate with the Northeast Community College Area in a Surgical Technology program. In addition, over \$93,000 additional dollars are provided in the coming biennium for **equipment purchases for UNO/TV and Nebraska Public Radio**.

The Governor's budget recommendations include **reaffirmations of capital construction projects currently underway** totaling almost \$72.3 million of General Funds in the coming biennium. In addition, almost \$37.5 million of cash, revolving, and other funds are reaffirmed for the coming biennium. The reaffirmations include the Incarceration Work Camp, the Maximum/Medium Security Prison Facility, Miscellaneous Renovation projects at the State Colleges, the Hoyt Science Hall project at Peru State College, the completion of the Connell Hall renovation project at Wayne State College, the completion of the Richards Hall renovation project at UNL, the completion of the West Center renovation at the University of Nebraska - Kearney (UNK), the completion of the Information Science, Technology and Engineering project at UNO, the State Capitol masonry project, the Grand Island Training Center renovation project, the continuation of \$6.5 million per year of funding for the LB309 Task Force which flows from cigarette tax revenue through a cash fund, the continuation of the \$5.9 million funding stream for the University and the State Colleges for fire/life safety and renovation projects contained in LB1100, and a few other small projects. The University and the State Colleges are continuing the self-generated funding stream to match the LB1100 General Funds.

In terms of new construction, in addition to projects already mentioned, numerous projects totaling \$15.7 million in the coming biennium are recommended for **Game and Parks Commission** from the various cash fund resources of the Commission. Over \$2 million of cash funds are recommended for the biennium for various utilitarian projects at the **Department of Roads**. At **Peru State College**, \$115,400 of General Funds are recommended to continue Design/Development planning of the **Library renovation** project. In addition, over \$776,000 is recommended for **boiler replacements at the Hastings Regional Center**. Also, \$275,000 of State General Funds is recommended and to be matched by \$275,000 of federal funds, to **replace the KTNE/TV-transmitter at Angora**.

STATE LABOR AND HEALTH CONTRACTS

Former Governor Nelson reached agreement with the **Nebraska Association of Public Employees/ AFSCME, Local 61 (NAPE/AFSCME)** on a state employee labor contract for the period of July 1, 1999, through June 30, 2001. This contract includes nine bargaining units with a total of 10,571 employees. The contract provides for a 2% cost of living increase on July 1, 1999 and July 1, 2000. In addition, employees will be placed on a step pay plan effective January 1, 2000, with a one-step increase on that date.

The step pay plan has 16 steps, each 2.5% apart. Due to the step increase being given mid-year, the first year cost is estimated at 1.5%. The 400 employees at or above the top step will be given a longevity increase if they meet certain years of service requirements. On January 1, 2001 each employee will be advanced one step resulting in a 2.5% increase in salary, except for those on or above the top step. No longevity increases will be granted.

The State will continue to pay 79% of the total health insurance premium for each of these employees. As the total premium cost has increased by 37%, for the calendar year commencing January 1, 2000, the State's health insurance contribution will increase by this percentage. Sick leave accrual for employees in these bargaining units has been substantially reduced. The highest number of days that could be accrued per year previously was 30, and this will now be reduced to 18. Reductions were also made at other levels of the schedule.

The former Governor also reached agreement with the **State Code Agency Teacher's Association (SCATA)** for a labor contract for the period of July 1, 1999, through June 30, 2001. This labor contract covers the Teacher's Bargaining Unit, which contains 51 employees. The base salary for this unit will be increased 3% each year, which increases each step on the schedule by 3% per year. The State will continue to pay 79% of the total health insurance premium of each of these employees, which will result in a 37% increase in the amount of the premium paid by the State.

The Governor has included funding in the coming biennium for non-contract covered employees (primarily managers and supervisors) at the same rate as for NAPE/AFSCME contract employees. The method for distribution is being formulated. The state will offer the same insurance package to non-contract employees as negotiated in the NAPE/AFSCME labor contract, whereby the state continues to pay 79% of the total health insurance premium for each employee. As the total premium cost has increased by 37% for the calendar year commencing January 1, 2000, the State's health insurance contribution will increase by this percentage.

The Governor's recommendation includes \$24.1 million General Funds in the coming biennium to finance the cost of the NAPE/AFSCME contract, the SCATA contract, and non-contract state employees.

Governor Johanns has reached an agreement with the **State Law Enforcement Bargaining Council (SLEBC)** which settles the impasse for the period of July 1, 1997 through June 30, 1999. A new contract was also negotiated which will provide for wage increases from July 1, 1999 through June 30, 2001. This contract covers approximately 500 law enforcement employees in the Nebraska State Patrol, the State Fire Marshal's Office, and the Game and Parks Commission.

The settlement agreement for the period of July 1, 1997, through June 30, 1999, implements a 13-step pay plan with pay rates established based on comparability. The settlement amount due to each employee will vary based on their years of service and placement on the new pay

lines. As part of the settlement agreement, employees who have more than 120 hours in their overtime compensatory time banks will receive a cash pay-out which will balance each time bank back to 120 hours as required by the labor contract.

The new contract will provide for a \$250 monthly stipend for State Patrol Investigation Officers while they are performing investigative duties and will also be provided to a new classification entitled State Patrol Investigative Sergeant.

The State also agreed to provide a 79% employer contribution toward the total health insurance premium. The State will offer an employer contribution toward dental insurance and will provide an employer paid long term disability insurance program for employees in this bargaining unit.

Terms and conditions were also established for 60 **management employees in law enforcement**. The terms and conditions included an upward salary grade change to re-establish the pay relationship between management and SLEBC contract employees, enabling the state to continue to recruit and retain management employees.

The Governor's recommendation includes \$2.7 million General Funds for FY. 1998-99 to resolve the impasse with SLEBC and an additional \$4.9 million in the coming biennium to finance the cost of the 1999-2001 SLEBC contract.

OTHER COMPENSATION CHANGES

Engineer Pay Increases - To ensure adequate engineering expertise for the state and to respond to recruitment and retention problems, former Governor Nelson increased hiring rates for engineers to reflect comparable market pay. The new hiring rates went into effect on November 1, 1998. The nine agencies who employ 225 engineers gave base wage increases totaling approximately \$1 million in the current fiscal year. Additional General and Cash Fund appropriations are included in the Governor's recommendations to address these costs in the coming biennium.

Correctional Pay Increases - Former Governor Nelson also reached a formal agreement with NAPE/AFSCME Local 61 to establish increased hiring rates for nearly 700 Correctional Officers, Corporals, and Sergeants beginning January 1, 1999. In addition, current employee salaries were increased at the Department of Corrections. These changes were made to solve recruitment and retention problems at the Department of Corrections. The estimated annual cost of these changes is \$1.6 million General Funds and is included in the Governor's recommendation for each year of the coming biennium.

Additional studies were also initiated in 1998 to measure wage comparability for information technology, health and medical, and regulatory professionals. Results of these studies were not finalized prior to the transition between Administrations, and the information was not available for consideration in the development of Governor Johannis' recommendations for the coming biennium.

The **health and welfare benefits** for state employees are purchased on the basis of a competitive bidding process. The contracts run on a calendar year and expire in December of the odd-numbered years. At this time, the state is preparing to rebid the state's health insurance contracts and other benefit contracts. Projections indicate that costs for the health insurance plans will increase significantly. The costs associated with this increase will be borne by both state agency budgets and state employees, with the state continuing to assume 79% of

costs and the employee paying 21%. Included in the Governor's recommendation is an additional \$18.2 million in new General Funds to cover the state's obligation for anticipated benefit cost increases.

CONCLUSION

Governor Johanns' budget recommendations, presented in detail on the following pages, controls the growth of state government, provides for direct tax relief, and safeguards the citizens of Nebraska. With those key elements in place, the state is positioned for economic growth. The recommendations allow responsible funding for education, reliable services for those with special needs, attention to the requirements of the environment, a conscious investment in the state's physical and technological infrastructure, and appropriate compensation for state employees. With this strong foundation, we can lead "Nebraska United" into the 21st Century.